

KANNALAND MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.22. REVENUE (CONTINUE)

1.22.3 Grants, Transfers and Donations (Non-Exchange Revenue)

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.23. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In respect of transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the municipality will disclose:

- (a) The nature of the related party relationships;
- (b) The types of transactions that have occurred; and
- (c) The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.24. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

1.28. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard brings new rules in respect of presentation of budget information.

KANNALAND MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Post retirement medical obligations, Long service awards and Ex gratia gratuities

The cost of post retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

KANNALAND MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUE)

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

Revenue Recognition

Accounting Policy 1.22.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.22.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.30. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

KANNALAND MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.31. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

KANNALAND MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
2 LONG-TERM LIABILITIES		
Annuity Loans - At amortised cost	17,511,798	17,883,680
Capitalised Lease Liability - At amortised cost	142,171	241,665
	<u>17,653,969</u>	<u>18,125,345</u>
Current Portion transferred to Current Liabilities	(539,193)	(471,297)
Annuity Loans - At amortised cost	(471,425)	(371,883)
Capitalised Lease Liability - At amortised cost	(67,768)	(99,414)
	<u>17,114,776</u>	<u>17,654,048</u>
Total Long-term Liabilities - At amortised cost using the effective interest rate method		
The obligations under finance leases are scheduled below:		Minimum lease payments
Amounts payable under finance leases:		
Payable within one year	91,765	138,552
Payable within two to five years	91,639	183,404
Payable after five years		
	<u>183,404</u>	<u>321,956</u>
Less: Future finance obligations	(41,233)	(80,291)
Present value of lease obligations	<u>142,171</u>	<u>241,665</u>
Leases are secured by property, plant and equipment - Note 11		
Refer to Appendix A for descriptions, maturity dates and effective interest rates of structured loans and finance.		
3 NON-CURRENT EMPLOYEE BENEFITS		
Post Retirement Health Care Benefits	5,314,046	4,543,176
Long Service Awards	764,072	707,133
Total Non-current Employee Benefit Liabilities	<u>6,078,718</u>	<u>5,250,311</u>
<u>Post Retirement Health Care Benefits</u>		
Balance 1 July	4,749,866	4,560,189
Current service cost	220,829	190,644
Interest Cost	408,914	393,766
Contributions (benefits paid)	(206,688)	(190,968)
Actuarial Loss/(Gain)	362,861	(203,765)
Total Post Retirement Health Care Benefits 30 June	<u>5,535,782</u>	<u>4,749,866</u>
Less: Transfer of Current Portion - Note 6	(221,136)	(206,688)
Balance 30 June	<u>5,314,646</u>	<u>4,543,178</u>
<u>Long Service Awards</u>		
Balance 1 July	775,065	727,524
Current service cost	93,954	95,390
Interest Cost	60,528	52,514
Benefit Vesting	(67,932)	(86,811)
Actuarial Loss/(Gain)	20,766	(13,752)
Total long service 30 June	<u>882,381</u>	<u>775,065</u>
Less: Transfer of Current Portion - Note 6	(118,309)	(67,932)
Balance 30 June	<u>764,072</u>	<u>707,133</u>
<u>TOTAL NON-CURRENT EMPLOYEE BENEFITS</u>		
Balance 1 July	5,524,931	5,287,713
Current service cost	314,783	288,034
Interest cost	469,442	446,280
Benefits paid / vested	(274,620)	(277,579)
Actuarial Loss/(Gain)	383,627	(217,517)
Total employee benefits 30 June	<u>6,418,163</u>	<u>5,524,931</u>
Less: Transfer of Current Portion - Note 6	(339,445)	(274,620)
Balance 30 June	<u>6,078,718</u>	<u>5,250,311</u>

KANNALAND MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

EMPLOYEE BENEFITS (CONTINUE)

3.1 Post Retirement Health Care Benefits

The Post Retirement Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

	2011 R	2010 R
In-service (employee) members	52	52
In-service (employee) non-members	72	70
Continuation members (e.g. Retirees, widows, orphans)	10	10
Total Members	134	132

The liability in respect of past service has been estimated to be as follows:

In-service members	2,344,671	1,908,135
Continuation members	3,191,111	2,841,731
Total Liability	5,535,782	4,749,866

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Hasmed
LA Health
Key Health, and
SAMWU Medical Aid

The Current-service Cost for the ensuing year is estimated to be R320 729, whereas the Interest Cost for the next year is estimated to be R464,476.

3.1 Post Retirement Health Care Benefits

Key actuarial assumptions used:

i) Rate of Interest

Discount rate	8.56%	8.80%
Health Care Cost Inflation Rate	7.30%	7.04%
Net Effective Discount Rate	1.18%	1.64%

ii) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.

iii) Normal retirement age

It has been assumed that in-service members will retire at age 60; which then implicitly allows for expected rates of early and ill-health retirement.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	5,314,646	4,543,178
Net liability/(asset)	5,314,646	4,543,178

The municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155 (a).

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year	4,749,866	4,560,189
Total expenses	423,055	393,442
Current service cost	220,829	190,644
Interest Cost	408,914	393,766
Benefits Paid	(206,688)	(190,968)
Actuarial (gains)/losses	362,861	(203,765)
Present value of fund obligation at the end of the year	5,535,782	4,749,866
Less: Transfer of Current Portion - Note 6	(221,136)	(206,688)
Balance 30 June	5,314,646	4,543,178